

Woodward's Annual
Report for the
fiscal year ended
January 31, 1987.

Woodward's is well on
its way to becoming *the*
store to check first for
the latest fashions in
family apparel and
home products. We
are carving out a
unique market niche
by offering our
customers the inno-
vations and product
depth of a
specialty



1987

store along with the variety and convenience of a department store.

■ Two years ago Woodward's began to reposition itself to take full advantage of changes in the marketplace. We sharpened our customer focus and redefined our goals.

■ Our mission: To be the most trusted, consumer-oriented department store in the communities we serve; To be known as the retailer most consistently able to satisfy the needs of both traditional and contemporary consumers in fashion areas as well as everyday items; To maximize our return on investment in family apparel and selected home products at popular through upper moderate price points.

■ We have renovated nine of our older highest volume stores and opened two new stores,



Woodward's Limited

NOTICE OF ANNUAL GENERAL MEETING

To the Holders of Class A shares,
Class B shares and Class C shares
of Woodward's Limited:

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Woodward's Limited will be held in the Oakridge Auditorium, Oakridge Shopping Centre, Forty First Avenue and Cambie Street, Vancouver, British Columbia on Tuesday, the 2nd day of June, 1987 at the hour of 11:00 o'clock in the forenoon for the following purposes:

1. To receive the report of the Directors, the consolidated financial statements for the fiscal year ended January 31, 1987 and the Auditor's Report thereon;
2. To change the number of Directors to 15;
3. To elect Directors for the ensuing year;
4. To appoint an Auditor for the ensuing year, and to authorize the Directors to fix the remuneration to be paid to the Auditor;
5. To transact such other business as may properly come before the Meeting.

The report of the Directors, the consolidated financial statements and the Auditor's Report which will be presented at the Meeting are in the 1986 Annual Report accompanying this Notice.

Members who are unable to attend the Meeting are requested to complete, sign and return the enclosed form of proxy in the envelope provided.

By order of the Board of Directors

M. GANDOSSO, Secretary

DATED at Vancouver, British Columbia, the 15th day of April, 1987.

ELECTION OF DIRECTORS

The number of Directors is currently fixed at 14. If the number of Directors is changed as proposed by management, the number of Directors to be elected at the meeting will be 15.

The term of office of each present Director of the Company will expire at the Meeting. Each of the persons whose name appears hereunder is proposed by the management to be nominated for election as a Director of the Company to serve until the next Annual General Meeting or until he sooner ceases to hold office.

Name and Country of Residence	Position or Office with the Company	Principal Occupation	Date became Director	Voting Shares Owned ⁽¹⁾		
				Class A	Class B	Class C
Charles Namby Wynn Woodward† + Canada	Chairman of the Board and Chief Executive Officer	Chairman of the Board and Chief Executive Officer of the Company	May 21, 1953	123,687	80,000	1,015,136
Associate — Elmswood Limited				166,579	911,576	1,596,000
Joseph Lorne Braithwaite Canada		President and Chief Executive Officer, Cambridge Shopping Centres Limited (Real Estate Developers)	December 6, 1985	0		
William George Brown Canada	Senior Vice President, Distribution	Senior Vice President, Distribution of the Company	July 25, 1974	526		
Charles Reginald Clarridge** Canada		Retired	October 6, 1955	1,543	10,400	
William Douglas Haig Gardiner† + Canada		President, W.D.H.G. Financial Associates Ltd. (Financial Consultants)	May 20, 1975	12,268		
James Norman Hyland* + Canada		Corporate Director	October 27, 1972	10,487		
Philip Charles McComb Canada	Senior Vice President, Alberta Operations	Senior Vice President, Alberta Operations of the Company	June 10, 1980	478	20,000	
Gregory John Duncan McKinstry Canada	Treasurer and Assistant Secretary	Treasurer and Assistant Secretary of the Company		524		
Frances Ruth Olson Canada		Director, Community Relations, Stuart Olson Construction Ltd. (Construction)	August 29, 1986	1,015		
Frank Allan Robertson† Canada	President and Chief Operating Officer	President and Chief Operating Officer of the Company	July 27, 1972	67,313		
Margaret Elizabeth Southern Canada		Manager, Spruce Meadows (An Equestrian Centre)	April 5, 1979	1,249		
John Martin Tennant†* Canada		Partner, Lawson, Lundell, Lawson & McIntosh Barristers & Solicitors	May 27, 1981	1,063		
Robert Arthur White†* Canada		Barrister & Solicitor	January 23, 1964	94,344		
Christopher Charles Woodward Canada	Senior Vice President, Merchandising	Senior Vice President, Merchandising, of the Company		0		
William John Douglas Woodward† Canada	Executive Vice President	Executive Vice President, of the Company	December 6, 1985	336		

(1) Refers to voting shares of the Company beneficially owned directly or indirectly or over which control or direction is exercised as of March 15, 1987, the numbers of such shares, not being within the knowledge of the Company, having been supplied by the individual Directors.

† Member of Executive Committee

* Member of Audit Committee

** Alternate Member of Audit Committee

+ Member of Compensation Committee

Mrs. F.R. Olson has been employed in her present capacity for the past five years. In April, 1982, Mr. C.C. Woodward and Mr. G.J.D. McKinstry were Divisional Merchandise Manager and Company Accounts Manager respectively of the Company and since that time they have been employed in various senior management and executive positions by the Company.

The Advance Notice of Meeting inviting nominations for Director as required by Section 135 of the Company Act of British Columbia was printed in the Vancouver Sun newspaper issue of March 11, 1987 and in the Province newspaper issue of March 12, 1987 published in Vancouver and was delivered on March 12, 1987 to the Superintendent of Brokers, Vancouver, British Columbia, and the Vancouver Stock Exchange.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

There are 12,969,316 Class A shares without par value, 1,116,088 Class B shares without par value and 2,684,184 Class C shares without par value of the Company outstanding as fully paid and non-assessable shares.

At the Meeting, registered holders of outstanding Class A shares, Class B shares and Class C shares at the close of business on April 15, 1987, which is the record date for the Annual General Meeting, will on a poll be entitled to one vote for each such share held on that date, provided they are present in person or by proxy. With respect to the total outstanding Class A shares, Class B shares and Class C shares which may be voted at the Annual General Meeting the following table includes the persons who, to the knowledge of the Directors and senior officers of the Company, beneficially own directly or indirectly more than 10% of such shares and the Directors and senior officers whose holdings of such shares are substantial:

Name	No. of Shares	%
Elmswood Limited ⁽¹⁾	2,674,155	15.9
Charles Namby Wynn Woodward	1,218,823	7.2

(1) Elmswood Limited is an associate of Charles Namby Wynn Woodward.

REMUNERATION OF MANAGEMENT AND OTHERS

(a) For the fiscal year ended January 31, 1987, the aggregate direct cash remuneration paid or payable by the Company and its subsidiaries whose financial statements are consolidated with those of the Company to the Directors and executive officers of the Company was \$95,650 and \$1,893,461, respectively. The executive officers are provided other benefits for which the total incremental cost to the Company did not exceed the lesser of \$10,000 times the number of executive officers or 10% of the aggregate direct cash remuneration paid or payable to them. The Company now has 17 executive officers.

(b) The Company has a management pension plan in which executive officers of the Company as well as other eligible managers participate on a non-contributory basis. The plan yields a benefit from normal retirement age (age 60 or a later date approved by the Company) equal to 1¼% of final average earnings multiplied by credited years of service, less old age security and Canada Pension Plan benefits. If the participant dies, an eligible surviving spouse is entitled to a one-half benefit continuing for life.

(c) The Company has entered into agreements with some of its executive officers providing for payment of retirement allowances. If the executive officer retires at his normal retirement date (age 60 or a later date approved by the Company) the monthly amount payable is the greater of (i) 50% of his monthly salary immediately prior to retirement or (ii) 2% of such monthly salary for each year of service with the Company to a maximum of 35 years, less, in either case, substantially all of his monthly pension payable under the Company's management pension plan attributable to the Company's contributions. If the executive officer retires with the Company's consent prior to his normal retirement date, the amount of the allowance is reduced by applying a formula based on the number of months still to run to his normal retirement date, unless the Company waives such reduction.

(d) The Company has a stock option plan for the benefit of key employees who have the principal responsibility for the successful administration and management of the Company. In 1984 the Directors set aside 1,487,693 unissued Class A shares for the granting of options under the stock option plan and authorized the Compensation Committee of the Board of Directors to select the participants and to determine the term of each option, not in any case exceeding ten years, and the number of Class A shares to be optioned. Each option granted under the stock option plan is required to be exercisable at the market price on the day the option is granted or, if specified in the option, at a discount from that market price not exceeding applicable discounts permitted by stock exchange regulations. The plan was accepted by the Vancouver, Toronto, Montreal and Alberta Stock Exchanges on which the Class A shares of the Company are listed.

At January 25, 1986, the beginning of the Company's last completed financial year, there were outstanding options granted under the stock option plan to executive officers of the Company (including those who were also Directors) as a group for a total of 226,000 Class A shares exercisable until February 20, 1989, subject to earlier termination in the event of death of the optionee or cessation of his employment at a price of \$4.01 per share.

Woodward's Limited

INFORMATION CIRCULAR

DATED AS OF APRIL 15, 1987

SOLICITATION OF PROXIES

The information contained in this circular is furnished in connection with the solicitation of proxies by the management of Woodward's Limited (hereinafter called the "Company") for use at the Annual General Meeting of the Company ("the Meeting") to be held in the Oakridge Auditorium, Oakridge Shopping Centre, Forty First Avenue and Cambie Street, Vancouver, British Columbia on June 2, 1987 at 11:00 o'clock in the forenoon for the purposes set forth in the notice of the Meeting.

The solicitation will be primarily by mail. Proxies may be solicited personally or by telephone by regular employees of the Company. The cost of the solicitation will be borne by the Company.

VOTING OF PROXIES

The form of proxy accompanying this Information Circular confers discretionary authority upon the proxy nominee with respect to amendments or variations to the matters identified in the notice of the Meeting and other matters which may properly come before the Meeting. As at the date of this Information Circular, management is not aware of any such amendments or variations, or of other matters to be presented for action at the Meeting.

If the instructions in the proxy are certain, the shares represented by a proxy will be voted on any poll and where a choice with respect to any matter to be acted upon is specified, the shares will be voted on the poll in accordance with the specification so made. **If a choice is not so specified with respect to any such matter, the shares represented by a proxy given to management are intended to be voted in favour of the resolutions referred to in the form of proxy accompanying this Information Circular and for the nominees of management for Directors and Auditor. A member has the right to appoint a person (who need not be a member) to attend and act for him on his behalf at the Meeting other than the persons designated in the form of proxy and may exercise such right by inserting the name of the desired person in the blank space provided in the form of proxy and striking out the names now designated.**

Completed forms of proxy to be used and voted at the Meeting must be delivered to the Company at its registered office, 101 West Hastings Street, Vancouver, British Columbia, not later than 5:00 P.M. on June 1, 1987, failing which, they shall not be treated as being valid or effective.

REVOCABILITY OF PROXIES

A member who has given a proxy has the power to revoke it at any time before it is exercised.

In addition to revocation in any other manner permitted by law, a member giving a proxy has the power to revoke it by an instrument in writing executed by the member or by his attorney authorized in writing, or, where the member is a corporation, by a duly authorized officer or attorney of the corporation, delivered either to the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used or to the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof.

CHANGE OF NUMBER OF DIRECTORS

The Articles of the Company provide that the number of Directors may be changed from time to time by ordinary resolution. At the 1986 annual general meeting, 14 Directors were elected. Mr. M. Gandossi, who retires this year as Executive Vice President, Finance and Secretary of the Company, has decided not to stand for re-election. Miss Rose Bancroft, who is also retiring from the Company, has decided not to stand for re-election. However it is proposed by management to nominate three Directors in addition to the 12 Directors who will be standing for re-election. An ordinary resolution will therefore be proposed changing the number of Directors to 15.

Effective March 20, 1986 options were granted under the stock option plan for a total of 791,500 Class A shares to a number of key employees including executive officers who were Directors and other executive officers. The options granted to all executive officers as a group were for a total of 313,000 Class A shares. The option price for these options will be either \$6.75 (being the market price determined in accordance with the stock option plan as at March 20, 1986) or \$6.075 (being the market price less 10%) as each optionee may at the time of each exercise of his option determine in respect of the optioned shares then being taken up and paid for. The price range of the Class A shares on The Toronto Stock Exchange in the thirty day period preceding March 20, 1986 was \$7.25 to \$6.50. Each option was granted for a consideration of \$1.00 and will expire on March 20, 1991, subject to earlier termination in the event of death of the optionee or cessation of his employment.

From January 25, 1986 to April 15, 1987 executive officers of the Company as a group exercised options under the stock option plan for a total of 69,000 Class A shares:

	Options Exercised		Price Range of Shares on The Toronto Stock Exchange	
	Number	Price	High	Low
February - April, 1986	67,000	\$4.01	\$8.75	\$6.50
May - July, 1986	2,000	\$4.01	\$8.25	\$6.50
August - October, 1986	—	—	\$6.83	\$5.25
November - January, 1987	—	—	\$6.50	\$5.25
February 1 - April 15, 1987	—	—	\$6.50	\$5.375


At January 31, 1987 there were outstanding options granted under the stock option plan to executive officers as a group for a total of 152,000 Class A shares being exercisable at a price of \$4.01 per share and for 321,000 Class A shares being exercisable at either \$6.75 or \$6.075 per share. The aggregate net value (market value less exercise price at the date of exercise) was a total of \$253,885 for the shares in respect of which options granted under the stock option plan were exercised by executive officers during the Company's fiscal year ended January 31, 1987.

(e) The Company has entered into agreements with certain executive officers which provide that if any person or group of persons (other than Mr. C.N. Woodward) owns or controls securities of the Company carrying 30% or more of the voting rights attached to all voting securities of the Company, the executive officer may resign within 12 months, in which event the Company shall immediately pay the executive officer an amount equal to the aggregate remuneration he would have received as his basic salary during the longer of the balance of the term of his employment or a specified period from his resignation. The agreements have employment terms ranging between one and six years and the specified periods range between one and three years.

(f) Directors are paid an annual retainer of \$5,000 each. Each Director who is not also an executive officer is paid a fee of \$300 for each meeting of Directors or meeting of a committee of Directors attended plus an additional fee of \$100 for each meeting of a committee of Directors at which he acts as chairman.

APPOINTMENT OF AUDITOR

The Management of the Company will propose the appointment of Deloitte, Haskins & Sells as Auditor of the Company to hold office until the next annual general meeting of the Company.



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downsizing those areas of our business in which profitability has become marginal. The extra space has been given to those fashion areas which offer the greatest return on investment. ■ We have deliberately set

Woodward's is first and foremost a family-oriented department store. While we carry a broad assortment of merchandise, our goal is to become the store to check first for the latest fashions in family apparel and home products. We recognize that mom does most of the shopping, and we have made it our business to know what she wants — and what she is willing to pay for it.

out to offer the consumer a shopping environment that is as good as or better than our competitors. In fact, our stores are being packaged, marketed and displayed as if they were specially designed consumer products. ■ Our merchandise selections are becoming narrower and deeper and reflect a commitment to

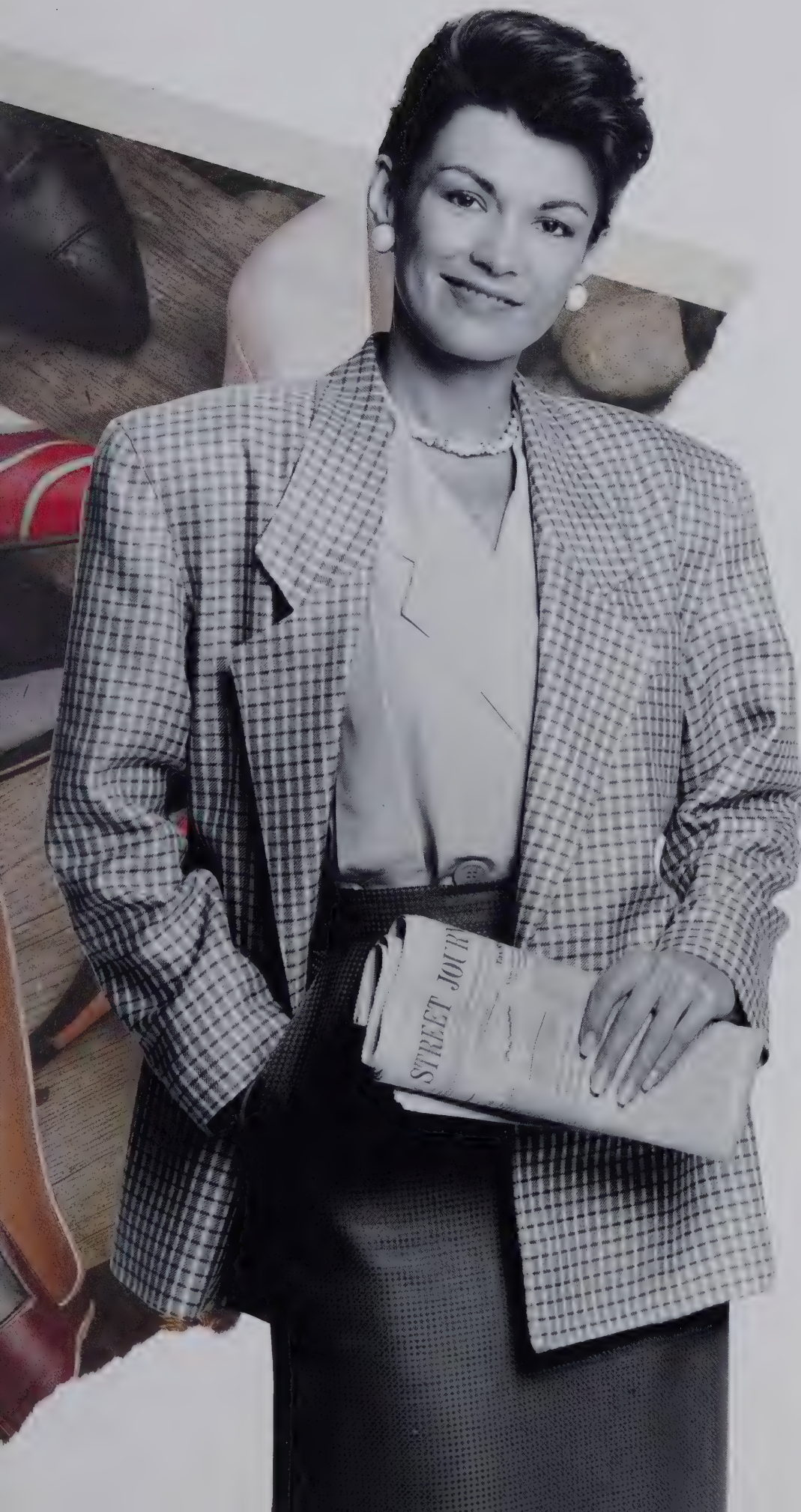
excellence in lifestyle themes. Unlike our specialty competitors, we can tailor our mix to make powerful, coordinated statements under one roof.

■ While there is still much to be done, we have accomplished more in two short years than many other companies in a similar position have done in twice the time. Says one well-known

Woodward's fashion story for women is primarily directed toward classics, updates and traditional-moderates. We have a very strong, well established relationship with quality-minded classics. Our relationship with younger fashion-conscious updates is still in its formative stages and promises the greatest potential for growth.

market analyst: "I'm flabbergasted at the change. It doesn't even look like the same Company. This is what a department store should look like." We agree. Our new and renovated stores are undoubtedly among the most up-to-date, exciting





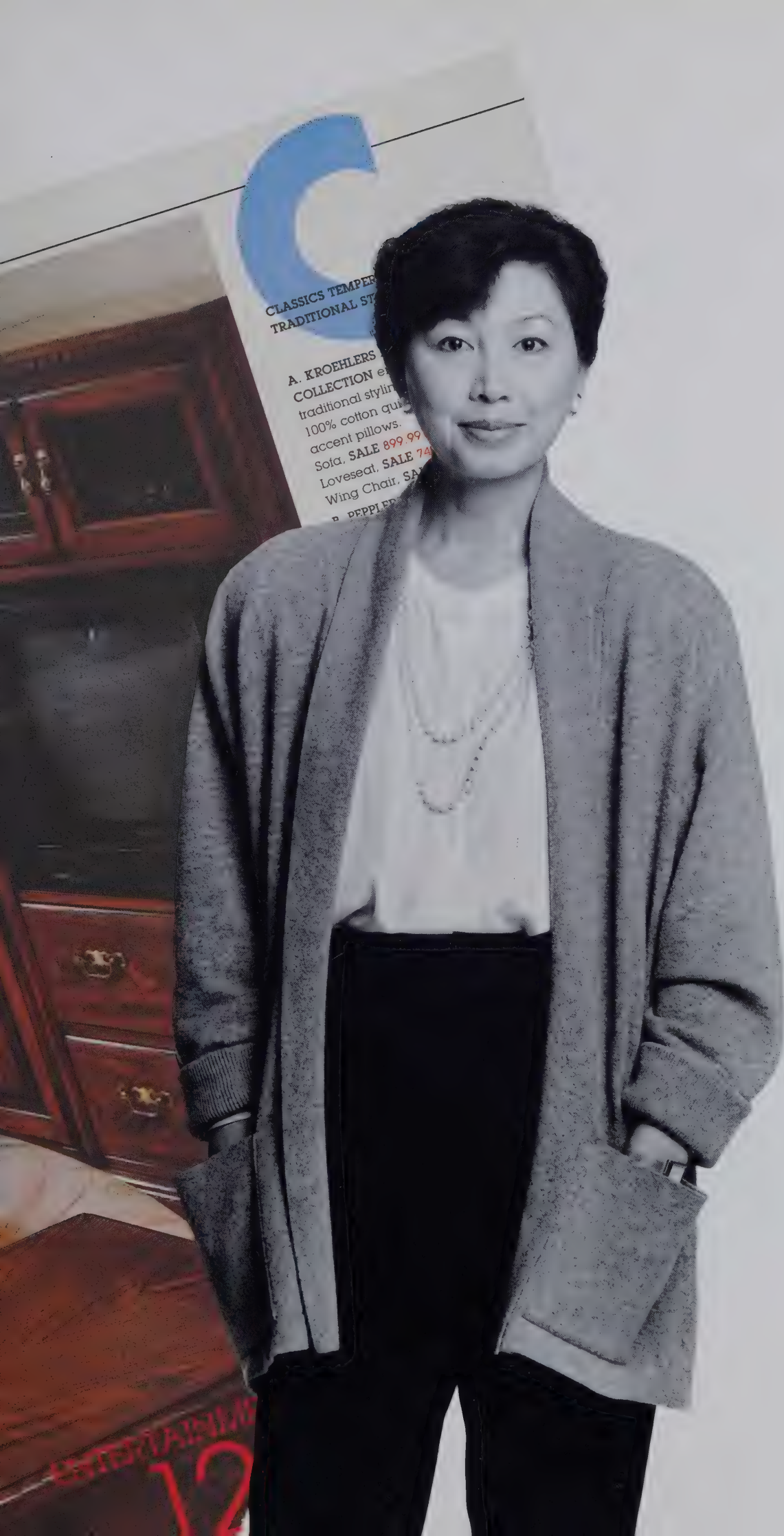
stores in North America. They inspire customer interest in our merchandise and make our shoppers feel comfortable in every department. Although they house a myriad of products appealing to a variety of tastes, they project a consistent image — “Woodward’s as an exciting, innovative, affordable and, above all, fashionable retailer.”

■ We have organized our stores to highlight two bold fashion themes: the first in fashion apparel and the second in fashions for the home and for recreation. ■ In fashion apparel, our goal is to be the first retailer with selected looks in advance of the season and in advance of the market. Our promotions seek to project a superior price-quality image and reinforce the message that Woodward’s is becoming a fashion leader. ■ We have adopted the same approach in home fashions, with a coordinated

Woodward's focus on fashion extends right into the home. Our selections of housewares, domestics, furniture, floor coverings and home accessories work together and compliment each other. Related merchandise is grouped to make powerful, coordinated statements and to develop themes that stimulate customer interest.

presentation of domestics, housewares, china, furniture, floor coverings and home accessories. We are introducing new colours, fabrics, materials and design in advance of the market, and we are beginning to develop an expertise for interpreting the subtleties of contemporary design. Our home departments keep in close step with our fashion apparel areas to ensure our clothing customers identify with the ideas being marketed and merchandised for the home. ■ While commodities are no longer a major thrust





in our business, we still cater to the casual user of such technical products as cameras and electronic equipment. We also offer drugs, stationery, books and the like as a convenience. But even these departments are being merchandised to enhance the overall fashion story. ■ Our prices are popular to upper moderate and are consistent across all departments. We still see ourselves as a volume business. But we believe the best way to increase our volume is to sell items related to ideas rather than on the basis of price alone. ■ Over half of our fashion story is directed

toward classic consumers who have a good understanding of the quality-style-value equation. We are also intent on capturing the attention of younger fashion-conscious updates who are expressive, stylish and economically self-assured. As well, we are continuing to serve the price-oriented traditional consumer who is looking for basic everyday items.

■ While we are striving to project a consistent image in all our stores, we are also sensitive to the unique characteristics of each store's trading area. To make this possible, we have implemented a large-scale information-gathering program to help deliver the right products, at the right price, to the right place, at the right time, for the right customer. Our new



point-of-sale and inventory management systems will allow us to track each product from the time we purchase it to the time and place where it is sold. Our research tells us who bought it and why. ■ Another key element in our strategy is customer service. We have always placed a high priority on customer service, and our research has shown that we still have the best overall service in the department store industry in Western Canada. However, our standards have declined in recent

Woodward's has targeted four groups of male shoppers: classics, updates, conformists and casualists. Classics look for quality, comfort and understated good looks. Younger active updates seek to express themselves through the products they buy, while conformists follow the fashion leaders. Casualists are interested in replacement of functional wear.

S.M.L.

8.99

D. 'POWER ROW' ROWING MACHINE
Adjustable tension controls. Padded seat.

149.99

SALE

WEIDER ABDOMINAL 'BLASTER' BOARD
Position lockable height adjustment.
Foam padding and heavy construction. SALE

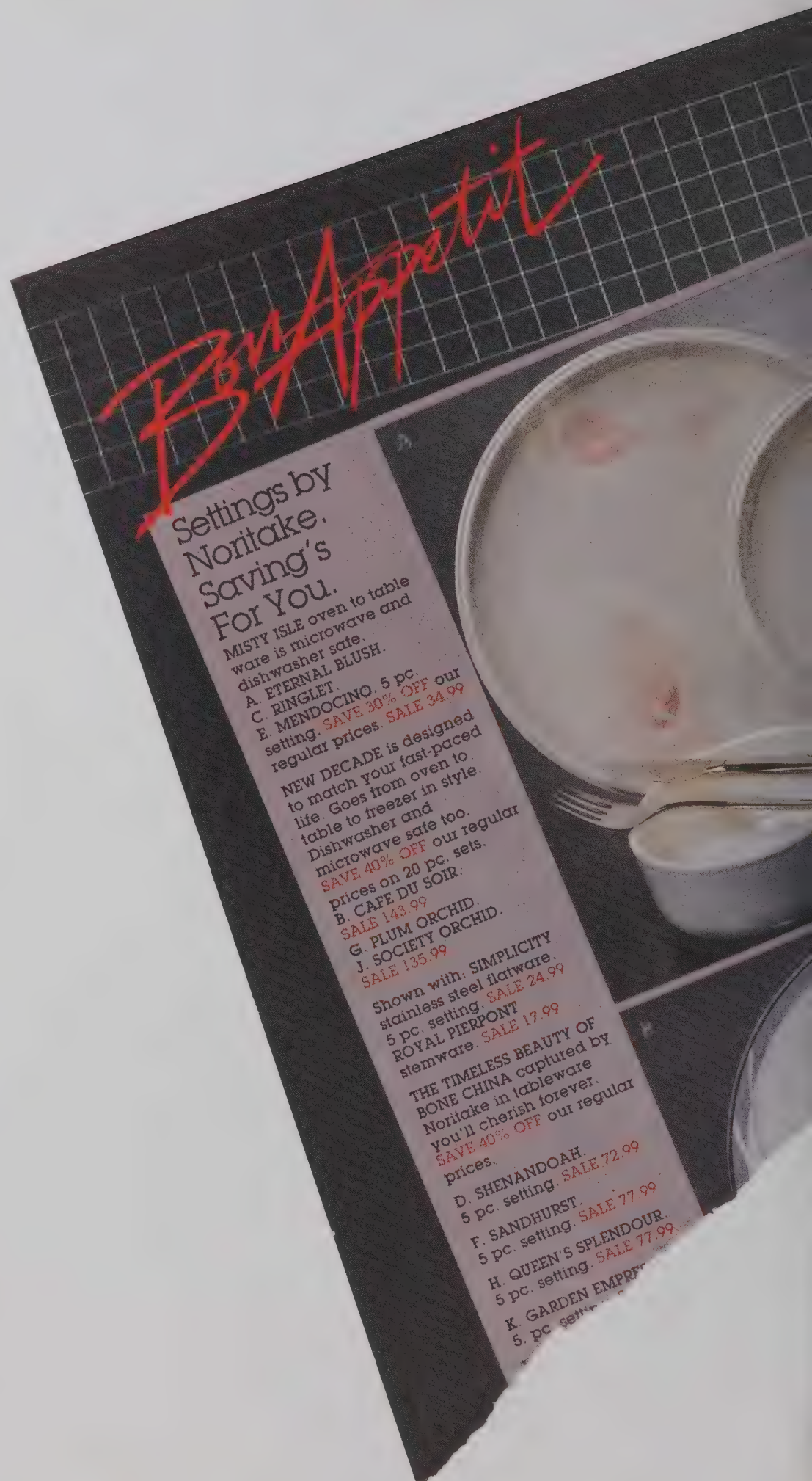
54.99

WOODWARD SPORTS

years and fall short of what our customers expect from us. To reverse this trend toward less service, we have implemented a new selling floor coverage program which ensures that our staff are on the sales floor when our customers are in the

Our stores are divided into four groups to ensure we have the right product, in the right place, at the right price. Our most fashion-forward stores, like Oakridge, are able to take the greatest percentage of higher-end product. Stores like West Edmonton Mall are also fashion forward, but more suited to moderate price points. Stores like Lethbridge focus on mainstream merchandise, while others like Pentiction are more traditional and price-conscious.

store. Our ultimate goal is an overall ratio of one sale-person for every three or four customers. ■ Along with more service, we are also taking steps to improve the quality of service. We have intensified our efforts



Bon Appetit

Settings by Noritake. Saving's For You.

MISTY ISLE oven to table ware is microwave and dishwasher safe.

A. ETERNAL BLUSH.
C. RINGLET.
E. MENDOCINO. 5 pc. setting. **SAVE 30% OFF** our regular prices. **SALE 34.99**

NEW DECADE is designed to match your fast-paced life. Goes from oven to table to freezer in style. Dishwasher and microwave safe too. **SAVE 40% OFF** our regular prices on 20 pc. sets.

B. CAFE DU SOIR. **SALE 143.99**
G. PLUM ORCHID. **SALE 135.99**
J. SOCIETY ORCHID.

Shown with: SIMPLICITY stainless steel flatware. 5 pc. setting. **SALE 24.99**
ROYAL PIERPONT stemware. **SALE 17.99**

THE TIMELESS BEAUTY OF BONE CHINA captured by Noritake in tableware you'll cherish forever. **SAVE 40% OFF** our regular prices.

D. SHENANDOAH. 5 pc. setting. **SALE 72.99**
F. SANDHURST. 5 pc. setting. **SALE 77.99**
H. QUEEN'S SPLENDOR. 5 pc. setting. **SALE 77.99**
K. GARDEN EMPRESS. 5 pc. setting.



to heighten staff awareness of the critical need for superior customer service. As well, we are placing greater emphasis on customer courtesy skills and product knowledge.

■ We are leaving no stone unturned in our quest to become Western Canada's most trusted, consumer-oriented department store for family apparel and home fashions. We are continually making corrections and adjustments in our merchandising, store layout, pricing, marketing and presentation to find the perfect combination of ingredients to achieve our goal. And we are getting closer each day. As a result, we can look forward to improved sales results and a greater return on shareholder investment — our top priorities for the new year.

The year ended January 31, 1987 was difficult for Woodward's Limited. The department store sales in the first half of the year were curtailed by renovations to three of the Company's major volume stores, the continued downsizing of the Company's hardgoods divisions, the prolonged strike in British Columbia's forest industry and by the unanticipated success of Expo '86 in capturing consumer discretionary income. The second half results reflected a mediocre Fall season and the plunge of Alberta into another full-fledged recession. The impact of these events was intensified by substantial increases in personal income taxes and by extremely competitive market conditions. The food divisions continued to experience severe competition from additional superstores in our trade areas which eliminated sales growth opportunities.

Throughout these destabilizing conditions the Company continued with the implementation of its new retail strategies and received very favourable sales increases in most of the fashion apparel and home fashion divisions it had identified for growth.

Fine tuning of the new merchandise mix created an increase in markdowns for the current year. However, this is seen as a temporary situation which will not be repeated.

All controllable costs were continually scrutinized for savings during the year and, as a result, these costs were contained. However cost increases in such areas as property taxes,

utilities and government-sponsored employee benefits such as Canada Pension Plan and Unemployment Insurance had a negative impact on the year-end results. The full impact from the divestiture of the real estate assets in 1985 was evident in the statement of earnings for fiscal 1987. The loss of rental income and increased interest expense can be attributed to the elimination of the real estate assets in 1985. In March, 1986 the federal government eliminated the inventory tax allowance. This increased the Company's loss after tax by approximately \$2,500,000 or \$.15 per share.

In summary, while the results this year are disappointing considering the effort that has been extended by staff and management, there are positive areas to consider. The inventories are within budget. The consumer is recognizing Woodward's as a store to buy family apparel and selected home products at popular through upper middle price points. The Company now is well positioned to deal with the challenges of weak economies and capitalize on the selective growth opportunities which exist.

Financial

Total operating revenue for the year was \$1,135,801,000 compared to \$1,112,972,000 for the previous year; an increase of 2.1%.

Merchandising operations sustained a loss of \$6,733,000 compared to earnings last year of \$2,487,000. Before extraordinary items and including earnings from discontinued operations, earnings of \$5,272,000 were sustained last year; on a per share basis, the loss is \$.40 this year compared to earnings of \$.32 last year. After the inclusion of extraordinary items, the net loss amounted to \$7,741,000 or \$.46 per share; this compares to earnings of \$9,290,000 or \$.56 per share last year.

The ratio of current assets to current liabilities was 1.89 to 1 compared to 2.55 to 1 for last year. Capital expenditures for fixtures, equipment and leasehold improvements were \$15,401,000 compared to last year's total of \$14,758,000.

In the light of the financial results which have been announced, a decision on the declaration of the first-half dividend has been deferred until the June meeting of the Board of Directors.

Activities in Brief

The one activity that occurred in 1986 which will have the most far-reaching impact upon the Company was the agreement to sell the majority of Woodward's Food Floors to Canada Safeway. This was approved at a meeting of the Board of Directors held on December 15, 1986. It is anticipated that the sale will be consummated during May, 1987. This transaction will provide the Company with \$50 to \$55 million in cash which will be applied to reduce short-term indebtedness. This will result in a significant improvement in the Company's balance sheet. Reduction of interest expense will be evident on the statement of earnings commencing with the second quarter results for fiscal 1988.

A new and exciting store was opened in September, 1986, at the Metrotown Centre, Burnaby, British Columbia. The merchandise presentation and physical layout of this location represents a further enhancement of our change in retail strategy. The store has surpassed our expectations both in sales and gross margin performance.

The renovation and remodelling program continued during the year. The department stores at the Park Royal Shopping Centre in West Vancouver, the Mayfair Shopping Centre in Victoria and the Guildford Town Centre in Surrey now reflect the new look of Woodward's.

Organizational changes were made during the year to reflect the need for a streamlined management structure and to address priority concerns. Changes in the merchandise division eliminated one layer of management, providing for quicker, more immediate communication of strategy and direction.

Outlook

Woodward's will continue with its aggressive change in retailing strategy. The annualized results from the renovated stores and the results from our new stores, that use the same configuration, indicate that the strategy is sound. The major renovation program that began in 1985 will be completed in 1987 with the renovating of the Woodward's department store at Market Mall in Calgary, Alberta. Thereafter, the smaller outlying stores, many of which are relatively new, will be realigned without large capital expenditures.

Woodward's will not be looking for improved economic conditions to continue its growth. Although moderate growth is projected for the British Columbia economy in 1987 and there is an expectation that oil prices will firm up at approximately \$18.00 U.S. per barrel, it is unlikely that consumer spending will increase during the year. Consumers have run down their savings to very low levels during 1986; there is little likelihood of increases in real disposable income through better wage settlements, and recently imposed increases

in federal sales taxes will further reduce spending power.

The British Columbia government recently reduced its provincial sales tax from 7% to 6%; at the same time personal income tax rates were increased which will negate any growth in retail spending.

The continued growth for the Company will come from more accurate assortment planning, improved service in the stores, the improved capture of vital product movement information at the point of sale and from a concentrated effort to understand the particular needs of the consumers in each of the Company's trade areas.

The upcoming year should witness the completion of a five-year plan that was designed to reposition Woodward's in the market place. The systems, planning structures, and disciplines will be in place to ensure that the Company enters a new era of profitable growth.

With the changes that are in place, we are confident that the worst is over and that 1987 will be a return to profitability. The strategy is correct, the people are in place and the results will be evident.

Directors

Mr. T.R. Farrell did not stand for re-election to the Board of Directors in 1986. Mr. Farrell, President of the Company at the time of his retirement in 1975, served the organization in various capacities for over 58 years. His valued counsel and experience will be missed by the Company.

Mrs. F.R. Olson was appointed to the Board this past year. Mrs. Olson, a resident of Edmonton, Alberta, is Chairman of the University Hospital's Foundation and Director of Community Relations, Stuart Olson Construction Ltd. We welcome her input to the Board.

Executive Changes

Mr. M.P. McBride retired this past year as Vice President, Food Operation, after 38 years of

service. He has been a valued member of our staff and we wish him health and happiness in his retirement.

The following senior management appointments were made during the year:

Mr. G.J. Clark, Vice President, Food Operations

Mrs. P.A. Fisher, Vice President, Information Services

Effective February 1, 1987, the following appointments were made:

Mr. W.J.D. Woodward, Executive Vice President

Mr. C.C. Woodward, Senior Vice President, Merchandising

Mr. R.M. Freeman, Vice President, Stores

Mr. J.D. Gilbert, Vice President, Fashions

Mr. D.L. Zuccato, Vice President, Home Fashions and Hardgoods

Acknowledgements

A true test of an organization is how its staff and management work together in adverse situations. At Woodward's we are proud of the commitment of the staff and management to the new direction of the Company. We appreciate the ongoing interest and confidence of our shareholders and customers.



Chairman of the Board and Chief Executive Officer



President and Chief Operating Officer

April 15, 1987

FINANCIAL HIGHLIGHTS

WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

Fiscal Years Ended
(Thousands of Dollars Except Per Share Data)

January 31,
1987

January 25,
1986

For the Year:

Operating revenue	\$1,135,801	\$1,112,972
(Loss) earnings before extraordinary items	\$ (6,733)	\$ 5,272
Basic (loss) earnings per share before extraordinary items	\$ (.40)	\$.32
Net (loss) earnings	\$ (7,741)	\$ 9,290
Basic net (loss) earnings per share	\$ (.46)	\$.56
Dividends per share	\$.35	\$.40

At Year End:

Working capital	\$ 135,083	\$ 178,575
Shareholders' equity	\$ 141,224	\$ 148,436
Equity per share	\$ 8.42	\$ 8.92

CONSOLIDATED STATEMENT OF EARNINGS

WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

<i>Fiscal Year Ended</i> <i>(Thousands of Dollars)</i>	<i>January 31,</i> <i>1987</i>	<i>January 25,</i> <i>1986</i>
	(NOTE 1(i))	
OPERATING REVENUE:		
Sales including service charges	\$ 1,126,206	\$ 1,106,547
Gains on sale of marketable securities	3,732	—
Other income	5,863	6,425
Total operating revenue	1,135,801	1,112,972
COSTS AND EXPENSES:		
Cost of merchandise sold and all other expenses except those listed hereunder	874,494	845,102
Selling, general and administrative	243,304	241,540
Profit sharing and retirement funds	2,957	2,457
Depreciation and amortization	15,311	13,612
Net interest expense (NOTE 7)	18,936	11,474
Total costs and expenses	1,155,002	1,114,185
OPERATING (LOSS) FROM MERCHANDISING OPERATIONS	(19,201)	(1,213)
RECOVERY OF INCOME TAXES (NOTE 8):		
Current	1,608	211
Deferred	10,860	3,489
	12,468	3,700
(LOSS) EARNINGS FROM MERCHANDISING OPERATIONS BEFORE EXTRAORDINARY ITEMS	(6,733)	2,487
EARNINGS FROM DISCONTINUED OPERATIONS BEFORE EXTRAORDINARY ITEMS (NOTE 9)	—	2,785
TOTAL (LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	(6,733)	5,272
EXTRAORDINARY ITEMS (NOTE 10)	(1,008)	4,018
NET (LOSS) EARNINGS	\$ (7,741)	\$ 9,290
<i>(Dollars)</i>		
BASIC NET (LOSS) EARNINGS PER SHARE (NOTE 11):		
(Loss) earnings from merchandising operations before extraordinary items	\$ (.40)	\$.15
Earnings from discontinued operations before extraordinary items	—	.17
	(.40)	.32
Extraordinary items	(.06)	.24
Net (loss) earnings	\$ (.46)	\$.56

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

<i>Fiscal Year Ended</i> <i>(Thousands of Dollars)</i>	<i>January 31,</i> <i>1987</i>	<i>January 25,</i> <i>1986</i>
	(NOTE 1(i))	
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 132,672	\$ 164,036
Net (loss) earnings	(7,741)	9,290
	124,931	173,326
DEDUCT:		
Dividends:		
Class A shares	4,298	4,560
Class B shares	391	508
Class C shares	939	1,074
	5,628	6,142
Premium on redemption of Class C shares	—	34,512
	5,628	40,654
RETAINED EARNINGS, END OF YEAR	\$ 119,303	\$ 132,672

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

<i>Fiscal Year Ended</i> <i>(Thousands of Dollars)</i>	<i>January 31,</i> <i>1987</i>	<i>January 25,</i> <i>1986</i>
	(NOTE 1(ii))	
OPERATING ACTIVITIES:		
(Loss) earnings from merchandising operations before extraordinary items	\$ (6,733)	\$ 2,487
Add (deduct) items not involving a flow of funds:		
Depreciation and amortization	15,311	13,612
Deferred income taxes	(10,860)	(3,489)
Other	(2,446)	(63)
Total funds (used in) provided by merchandising operations	(4,728)	12,547
Net decrease (increase) in operating working capital items*	3,892	(17,749)
Total funds (used in) operating activities	(836)	(5,202)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	6,762	25,000
Capital lease obligations	—	8,745
Issue of shares	544	3,375
Repayment of long-term debt and capital lease obligations	(1,796)	(5,912)
Repayment of notes payable to a corporate joint venture of Woodward Realty Limited	—	(3,858)
Redemption of Class G shares	—	(75,586)
Other	(667)	(256)
Total funds provided by (used in) financing activities	4,843	(48,492)
INVESTING ACTIVITIES:		
Additions to fixtures, equipment and leasehold improvements	(15,401)	(14,758)
Fixtures and equipment under capital leases	—	(8,745)
Disposals of property, fixtures and equipment	80	3,183
Investment in Woodward Realty Limited	—	(9,856)
Disposal of investment in Woodward Realty Limited	—	75,586
Other	(842)	4,118
Total funds (used in) provided by investing activities	(16,163)	49,528
CASH DIVIDENDS PAID (including payments made in lieu of the issue of fractional shares for, and the redemption in 1986 of Class E shares issued as, stock dividends)	(15)	(3,090)
(INCREASE) IN BANK AND OTHER SHORT-TERM INDEBTEDNESS	(12,171)	(7,256)
BANK AND OTHER SHORT-TERM INDEBTEDNESS, BEGINNING OF YEAR	(36,613)	(29,357)
BANK AND OTHER SHORT-TERM INDEBTEDNESS, END OF YEAR	\$ (48,784)	\$ (36,613)
*NET DECREASE (INCREASE) IN OPERATING WORKING CAPITAL ITEMS COMPRISE:		
Cash	\$ (668)	\$ (304)
Marketable securities	(3,703)	5
Accounts receivable	8,662	(11,768)
Merchandise inventories	3,175	(11,933)
Prepaid expenses	(676)	(190)
Accounts payable and accrued liabilities	(2,898)	7,639
Income taxes payable	—	(1,198)
	\$ 3,892	\$ (17,749)

CONSOLIDATED BALANCE SHEET
WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

<i>As at</i> <i>(Thousands of Dollars)</i>	<i>January 31,</i> <i>1987</i>	<i>January 25,</i> <i>1986</i>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,378	\$ 3,710
Marketable securities — at cost (market value: 1987 — \$10,301; 1986 — \$9,435)	5,142	1,439
Accounts receivable	97,700	106,362
Merchandise inventories	176,274	179,449
Prepaid expenses	3,296	2,620
Total current assets	286,790	293,580
OTHER INVESTMENTS — at cost	3,048	2,145
FIXTURES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS — at cost	188,355	177,844
Less accumulated depreciation and amortization	110,672	99,473
Net fixtures, equipment and leasehold improvements	77,683	78,371
FIXTURES AND EQUIPMENT UNDER CAPITAL LEASES — at cost	14,267	14,267
Less accumulated amortization	5,124	3,697
Net fixtures and equipment under capital leases	9,143	10,570
DEFERRED INCOME TAXES	14,418	2,480
OTHER ASSETS	4,684	2,435
TOTAL	\$ 395,766	\$ 389,581

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Woodward's Limited as at January 31, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 31, 1987 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for pension costs as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding fiscal year.

Vancouver, British Columbia
April 15, 1987

DELOITTE HASKINS & SELLS
Chartered Accountants

<i>As at</i> <i>(Thousands of Dollars)</i>	<i>January 31,</i> <i>1987</i>	<i>January 25,</i> <i>1986</i>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank and other short-term indebtedness (NOTE 3)	\$ 48,784	\$ 36,613
Accounts payable and accrued liabilities	74,128	77,026
Current portion of long-term debt and capital lease obligations	28,795	1,366
Total current liabilities	151,707	115,005
LONG-TERM DEBT (NOTE 4)	79,882	101,207
CAPITAL LEASE OBLIGATIONS (NOTE 5)	9,345	10,484
DEFERRED GAINS ON SALE OF CERTAIN PROPERTIES (NOTE 1(f))	11,017	11,835
OTHER DEFERRED CREDITS	2,591	2,614
	254,542	241,145
SHAREHOLDERS' EQUITY:		
Share capital (NOTE 6(c))	20,651	14,494
Contributed surplus	1,270	1,270
Retained earnings	119,303	132,672
Total shareholders' equity	141,224	148,436
TOTAL	\$ 395,766	\$ 389,581

Approved by the Board:

C.N.W. Woodward, Director

M. Gandossi, Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1987

WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following policies:

(a) Basis of Consolidation: The consolidated financial statements include the accounts of the Company and all of its active subsidiaries (collectively referred to as "Woodward's") as follows:

Woodward Stores Limited
Woodward Acceptance Company Limited
Abercrombie & Fitch Co. (Canada) Inc.
Locarno Investments Limited
Thirty-one Purchasing Service Limited
Deli Farm Food Processors Limited
Woodward Stores (London) Limited

The Company's other subsidiaries are inactive and have only nominal assets and liabilities.

(b) Accounts Receivable: In accordance with recognized industry practice, accounts receivable include certain instalment accounts of which a portion will not become due within one year.

(c) Merchandise Inventories: The basis of valuation of merchandise inventories, at the lower of cost and net realizable value, is determined principally by use of the retail method of accounting generally used within the industry.

(d) Lease Obligations: Leases transferring substantially all of the benefits and risks incident to ownership of fixtures and equipment ("capital leases") are accounted for as the acquisition of assets financed by long-term liabilities. All other leases are accounted for as "operating leases" whereby rentals are charged against earnings.

(e) Depreciation and Amortization: Woodward's provides for depreciation of fixtures and equipment and amortization of leasehold improvements, including those held under capital leases, principally on the straight-line basis at rates sufficient to write off the cost of the various classes over their estimated useful lives or lease terms. The annual depreciation rates are 10% to 20% of the cost of fixtures and equipment.

(f) Deferred Gains on Sale of Certain Properties: The gains on sale and leaseback of certain properties have been deferred and are being amortized to earnings as an adjustment of rent expense over the terms of the leases.

(g) Pension Costs: Pension costs are charged to earnings as they accrue. In determining pension expense, the initial net pension surplus or deficiency for each pension plan that arose when this accounting policy was first implemented in the current fiscal year, adjustments arising from changes in actuarial assumptions, and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the respective employee groups which, in the aggregate, are estimated to be 15 years. The assets of Woodward's pension plans are valued at market related values.

(h) Store Pre-opening Expenses: These expenses are charged against earnings as incurred.

(i) Fiscal Year End: The fiscal year end of Woodward's is the last Saturday in January of each year. Consequently, the current fiscal year is a fifty-three week period as compared to fifty-two weeks in the prior fiscal year.

NOTE 2. ACCOUNTING CHANGE:

Effective as of the beginning of the current fiscal year, Woodward's changed its method of accounting for pension costs to conform to the new accounting recommendations issued by the Canadian Institute of Chartered Accountants during 1986. These costs are now charged to earnings as they accrue whereas previously, these costs were charged to earnings as funding payments were made.

This change has been applied prospectively, with the result that the net loss for the current fiscal year was decreased by \$1,096,000 (\$.07 per share).

NOTE 3. BANK INDEBTEDNESS:

Woodward's net bank indebtedness, amounting to \$48,784,000 at January 31, 1987, and the letter of credit discussed in Note 4 are secured by, among other things, an assignment of accounts receivable and merchandise inventories, a pledge of the cash collateral account discussed below and, subject to the prior charges of the outstanding Debentures, fixed and specific charges on fixtures, equipment and leasehold interests and a floating charge on all other assets of Woodward's. Woodward's agreement with its banker also provides that the Company will not, without prior consent, declare or pay cash dividends in excess of \$9,000,000 in the

1988 fiscal year and, in any fiscal year thereafter, one-half of the average of the consolidated net earnings (exclusive of non-cash extraordinary items and the share of net earnings of other companies) for the previous two fiscal years.

At January 31, 1987 the Company had \$35,070,000 (which includes the proceeds from the issue of Convertible Subordinated Notes) on deposit in a cash collateral account with its banker. As the funds in the cash collateral account have in turn been invested in Banker's Acceptances issued by Woodward's, this account has been netted against bank indebtedness for balance sheet purposes.

NOTE 4. LONG-TERM DEBT:

<i>(Thousands of Dollars)</i>	<i>Maturity</i>	<i>January 31, 1987</i>	<i>January 25, 1986</i>
Woodward's Limited:			
9¼% Sinking Fund Debentures			
1973 Series with annual sinking fund requirements on July 15 of \$700 in each of the years 1987 and 1988, and \$800 in each of the years 1989 to 1992 inclusive	July 15, 1993	\$ 8,519	\$ 8,731
11¾% Sinking Fund Debentures			
1974 Series with annual sinking fund requirements on October 15 of \$1,000 in each of the years 1987 to 1993 inclusive	October 15, 1994	11,944	11,944
11½% Sinking Fund Debentures			
1976 Series with annual sinking fund requirements on June 15 of \$1,000 in each of the years 1987 to 1995 inclusive	June 15, 1996	14,400	14,752
10¾% Sinking Fund Debentures			
1977 Series with annual sinking fund requirements on August 1 of \$800 in 1987 and \$1,000 in each of the years 1988 to 1996 inclusive	August 1, 1997	15,914	16,132
17½% Debentures 1982 Series due and repaid on maturity	April 1, 1987	25,000	25,000
9% Convertible Subordinated Notes, repayable as described hereunder	September 30, 2000	25,000	25,000
Woodward Stores Limited:			
Term loan on store fixtures payable in quarterly instalments of \$173 plus interest at 10.95%	July 30, 1996	6,762	—
		107,539	101,559
		27,657	352
Less current portion included in current liabilities		\$ 79,882	\$101,207

All Debentures of the Company rank equally and are secured equally and rateably, except for sinking funds pertaining to the respective issues, by floating charges upon the undertakings and all property and assets, present and future, of the Company and certain designated subsidiaries. The Company has also provided additional security to the Trustee in the form of a bank letter of credit in the amount of \$82,947,000 to cover outstanding principal, any applicable redemption premium and accrued interest on all of the outstanding Debentures. This letter of credit is subject to replacement with new letters of credit of lesser amounts as a result of future reductions in the principal amounts of the outstanding Debentures.

The Trust Indenture and supplements thereto, pursuant to which the outstanding Debentures of the Company have been issued, contain a restrictive covenant concerning the payment of cash dividends. At January 31, 1987, the consolidated retained earnings free of restrictions were approximately \$16,000,000.

In order to provide the Company with an assured source of funds to repay the outstanding Debentures 1982 Series at maturity, the Company issued during the previous fiscal year the unsecured Convertible Subordinated Notes (the "Notes"). The Notes are convertible at the option of the holder at any time prior to September 30, 1992 into Class A shares of the Company at a price of \$6.125 per share. The Notes are also redeemable at the option of the Company at their principal amount at any time between October 1, 1988 and September 30, 1992 if the Company's Class A shares trade, during 20 consecutive trading days within that period, at a weighted average price not less than 125% of the conversion price, and thereafter are redeemable at their principal amount plus a premium which decreases annually. Sinking fund payments are required on or before September 30 in each of the years 1993 to 1999 inclusive at an amount sufficient to retire in each of those years 5% of the principal amount of the Notes outstanding on September 30, 1992.

Maturities of long-term debt and sinking fund requirements during the next five fiscal years (net of Debentures purchased in advance of such requirements of \$1,623,000 at January 31, 1987) are as follows:

(Thousands of Dollars)

1988	\$27,657
1989	4,308
1990	4,494
1991	4,494
1992	4,494

NOTE 5. CAPITAL LEASE OBLIGATIONS:

The future minimum lease payments under capital leases are as follows:

(Thousands of Dollars)	January 31, 1987	January 25, 1986
Fiscal years ending in:		
1987	\$ —	\$ 2,444
1988	2,444	2,444
1989	2,444	2,444
1990	2,788	2,788
1991	1,612	1,612
1992	1,612	1,612
Thereafter to 1996	5,912	5,912
Total future minimum lease payments	16,812	19,256
Less amount representing imputed interest averaging 11.6% at January 31, 1987	6,329	7,758
Present value of future minimum lease payments	10,483	11,498
Less current portion included in current liabilities	1,138	1,014
	<u>\$ 9,345</u>	<u>\$10,484</u>

NOTE 6. SHARE CAPITAL:

(a) The authorized share capital at January 31, 1987 and the principal attributes of the various classes of shares, which are all without par value, were as follows:

(i) 30,000,000 Class A shares and 30,000,000 Class B shares which are voting, are exchangeable for one another at the option of the holder on a share-for-share basis and are identical in all other respects except that dividends on the Class B shares may be paid by way of stock dividends in the form of fully-paid Class E shares.

(ii) 30,000,000 Class C shares which are voting and are exchangeable into Class A shares or Class B shares on a share-for-share basis. The Class C shares have the same dividend rights as the Class B shares and are identical in all other respects with the Class A shares and Class B shares.

(iii) 3,000,000 Class E shares which are non-voting, are not entitled to dividends and are redeemable at the amount paid-up thereon.

(iv) 20,000,000 Class F shares issuable in one or more series, with the number of shares and rights of each series to be authorized by the Board of Directors of the Company before the issue thereof. The Class F shares are non-voting except to the extent that such right is attached by the Board of Directors of the Company to a particular series.

(v) 10,000,000 preferred shares issuable in one or more series, with the number of shares and rights of each series to be authorized by the Board of Directors of the Company before the issue thereof.

(b) The issued share capital at January 31, 1987 was as follows:

	<i>Number of Shares</i>	
	<i>January 31, 1987</i>	<i>January 25, 1986</i>
Class A shares	12,969,384	12,033,728
Class B shares	1,116,020	1,142,801
Class C shares	2,684,184	2,684,584
	<u>16,769,588</u>	<u>15,861,113</u>

(c) Changes in the issued Class A shares, Class B shares and Class C shares since January 25, 1986 were as follows:

<i>(Thousands of Dollars)</i>	<i>Number of Shares</i>	<i>Amount</i>
Balance at January 25, 1986	15,861,113	\$ 14,494
Class A shares issued as stock dividends	776,050	5,613
Class A shares issued on exercise of employee stock options	132,425	544
Balance at January 31, 1987	<u>16,769,588</u>	<u>\$ 20,651</u>

In addition to the foregoing, an aggregate of 27,181 Class A shares were issued in exchange for 26,781 Class B shares and 400 Class C shares.

(d) At January 31, 1987 there were options outstanding to employees for the purchase of an aggregate of 946,775 Class A shares (including options for 473,000 shares to officers of the Company) as follows:

<i>Number of Shares</i>	<i>Exercise Price per Share</i>	<i>Expiry Date</i>
170,475	\$4.01	February 20, 1989
776,300	\$6.075 or \$6.75	March 20, 1991

(e) Sufficient unissued Class A shares and Class B shares are reserved for the rights of exchange between the various classes of shares, the conversion rights attached to the Convertible Subordinated Notes, the outstanding employee stock options and the balance of 102,193 Class A shares for which additional options may be granted pursuant to the Key Employee Stock Option Incentive Plan.

NOTE 7. NET INTEREST EXPENSE:

Woodward's net interest expense comprises the following:

	<i>Fiscal Year Ended</i>	
	<i>January 31, 1987</i>	<i>January 25, 1986</i>
<i>(Thousands of Dollars)</i>		
Interest expense:		
Long-term debt and capital lease obligations	\$13,799	\$11,679
Other	8,267	2,933
	<u>22,066</u>	<u>14,612</u>
Less interest income (including \$2,345 from Woodward Realty Limited in 1986)	3,130	3,138
Net interest expense	<u>\$18,936</u>	<u>\$11,474</u>

NOTE 8. INCOME TAXES:

Woodward's provision for recovery of income taxes on the operating loss from merchandising operations does not reflect its statutory basic income tax rates for the following reasons:

	<i>Fiscal Year Ended</i>	
	<i>January 31, 1987</i>	<i>January 25, 1986</i>
Statutory basic income tax rates	50.0%	50.1%
Changes resulting from:		
Corporate surtax	1.7	1.0
Inventory allowance	1.2	208.7
Non-taxable incomes	9.1	28.0
Other	2.9	17.2
Effective income tax rates	<u>64.9%</u>	<u>305.0%</u>

NOTE 9. DISCONTINUED OPERATIONS:

The Company's share of the earnings before extraordinary items of its previous wholly-owned subsidiary, Woodward Realty Limited, for the period up to the date of disposal of the Company's investment therein during the previous fiscal year has been reported in the consolidated statement of earnings as earnings from discontinued operations.

NOTE 10. EXTRAORDINARY ITEMS:

Extraordinary items in the current fiscal year comprise losses on equipment, net of income taxes thereon of \$1,078,000. In the previous fiscal year, extraordinary items comprised the Company's share of Woodward Realty Limited's gains on sales of properties, fixtures and equipment, net of income taxes thereon of \$1,478,000, for the period up to the date of disposal of the Company's investment therein.

NOTE 11. NET (LOSS) EARNINGS PER SHARE:

The basic net (loss) earnings per share has been calculated using the weighted average aggregate number of Class A shares, Class B shares and Class C shares outstanding during each fiscal year after giving retroactive effect to stock dividends.

The fully diluted net (loss) earnings per share has been calculated using the weighted average aggregate number of Class A shares, Class B shares and Class C shares which would have been outstanding assuming that the Convertible Subordinated Notes were converted into Class A shares and the employee stock options were exercised on the dates when the Notes were issued and the options were granted, respectively. For purposes of this calculation, the (loss) earnings from merchandising operations before extraordinary items has been adjusted for the after-tax effect of interest expense on the Notes and an after-tax return of 4% (1986 — 5%) on additional funds assumed to have been received on exercise of the options. The fully diluted net (loss) earnings per share for the current and previous fiscal years were as follows:

(Dollars)	Fiscal Year Ended	
	January 31, 1987	January 25, 1986
(Loss) earnings from merchandising operations before extraordinary items	\$ (.40)	\$.15
Earnings from discontinued operations before extraordinary items	—	.15
	(.40)	.30
Extraordinary items	(.06)	.22
Net (loss) earnings	<u>\$ (.46)</u>	<u>\$.52</u>

NOTE 12. RELATED PARTY TRANSACTIONS:

Woodward's has transactions with related parties in the ordinary course of business. Such transactions, to the extent not disclosed elsewhere, are not significant to these consolidated financial statements.

NOTE 13. BUSINESS SEGMENT:

Woodward's operates primarily in one business segment, the retail merchandising industry, as substantially all of its revenues and earnings are derived from that industry.

NOTE 14. PENSION PLANS:

Woodward's has defined benefit pension plans which cover all regular full-time and part-time employees. These plans are all non-contributory and provide pensions based on length of service and final average years' earnings (as defined). The net pension recoveries included in earnings were \$837,000 in the current fiscal year and \$1,291,000 in the previous fiscal year. The net recoveries in the current fiscal year result from the amortization of the initial net pension surplus existing as at January 25, 1986, whereas the net recoveries in the previous fiscal year result from an actual cash recovery of a portion of the net pension surplus.

Based on an actuarial valuation made as of December 31, 1986, the accrued pension obligations aggregated approximately \$100,486,000 and the net assets of the plans aggregated approximately \$120,274,000.

Other assets include \$2,836,000 of deferred pension charges, and other deferred credits include \$643,000 of accrued pension costs, with respect to these pension plans.

NOTE 15. COMMITMENTS:

(a) The Company has agreed to sell twenty-three of its Food Floors to Canada Safeway Limited for a purchase price expected to be between \$50,000,000 to \$55,000,000, depending on adjustments for inventory levels at the time of closing. The transaction is subject to government approvals which are being sought.

(b) The aggregate minimum future annual rentals (exclusive of renewal periods, and property taxes and other expenses payable directly by Woodward's) under long-term operating leases for premises are as follows:

(Thousands of Dollars)

Fiscal years ending in:

1988	\$ 35,270
1989	35,566
1990	35,516
1991	36,136
1992	36,087
Thereafter to 2016	642,156
	<u>\$820,731</u>

The aggregate amount of rentals under these leases, some of which contain a percentage-of-sales clause, charged against the operating loss from merchandising operations was \$36,305,000 during the current fiscal year and \$33,639,000 during the previous fiscal year.

NOTE 16. COMPARATIVE FIGURES:

Certain of the comparative figures have been reclassified to conform to the presentation in the current fiscal year.

MANAGEMENT REPORT

The consolidated financial statements of the Company and its subsidiaries, the notes thereto and all other financial information which accompanies this report, have been prepared by management of the Company in accordance with generally accepted accounting principles and, except for the change in the method of accounting for pension costs as explained in Note 2 to the consolidated financial statements, on a basis consistent with the previous year. The consolidated financial statements have been examined by the Company's auditors, Deloitte Haskins & Sells, and their report offers an unqualified independent opinion to shareholders on the Company's financial position and operating results for the year.

The Board of Directors has approved the report to the shareholders and these consolidated financial statements after a comprehensive review and subsequent recommendation by the Board's Audit Committee. This Committee, which consists entirely of Directors who are not employees, meets quarterly with Company management, and periodically with the internal auditors and the Company's external auditors to review accounting and auditing procedures and other relevant financial matters.

The system of internal control established by the Company, and the functions performed by the internal auditors provide management with reasonable assurance that the assets of the Company are safeguarded and that proper financial records are maintained.

COMPARATIVE HIGHLIGHTS (1)

WOODWARD'S LIMITED AND SUBSIDIARY COMPANIES

<i>Fiscal Years Ended</i> <i>(Thousands of Dollars Except Per Share Data)</i>	<i>January 31,</i> <i>1987(3)</i>	<i>January 25,</i> <i>1986</i>	<i>January 26,</i> <i>1985</i>	<i>January 28,</i> <i>1984</i>	<i>January 29,</i> <i>1983</i>
Sales Including Service Charges	\$1,126,206	\$1,106,547	\$1,078,604	\$1,103,876	\$1,087,926
Selling, General and Administrative Expenses	243,304	241,540	238,036	243,686	237,006
Provision for Depreciation and Amortization Charged to Operations	15,311	13,612	12,217	12,156	10,948
Net Interest Expense	18,936	11,474	8,961	10,870	12,153
Profit Sharing and Retirement Funds	2,957	2,457	5,579	5,744	10,639
Recovery of Income Taxes	12,468	3,700	6,794	3,904	2,563
(Loss) Earnings from Merchandising Operations	(6,733)	2,487	(1,169)	932	4,993
Earnings from Discontinued Operations (1)	—	*2,785	*3,947	3,904	*3,443
Net (Loss) Earnings (*Excluding Extraordinary Items)	*(6,733)	*5,272	*2,778	4,836	*8,436
Basic Net (Loss) Earnings per Share (*Excluding Extraordinary Items) (2)	\$ *(.40)	\$ *.32	\$ *.17	\$.30	\$ *.51
Regular Dividends per Share	.35	.40	.50	.60	.59
Working Capital (Current Assets less Current Liabilities)	\$ 135,083	\$ 178,575	\$ 162,511	\$ 156,405	\$ 166,462
Ratio of Current Assets to Current Liabilities	1.89	2.55	2.52	2.29	2.89
Net Fixtures, Equipment and Leasehold Improvements	\$ 77,683	\$ 78,371	\$ 77,245	\$ 76,904	\$ 71,675
Net Fixtures and Equipment Under Capital Leases	9,143	10,570	7,878	8,450	9,020
Total Assets	395,766	389,581	425,077	416,505	390,769
Long-Term Debt	79,882	101,207	79,170	82,809	89,493
Capital Lease Obligations	9,345	10,484	8,213	8,742	9,224
Shareholders' Equity	\$ 141,224	\$ 148,436	\$ 219,526	\$ 194,623	\$ 192,744
Equity of Each Class A, B and C Share (2)	8.42	8.92	13.40	11.88	11.76
Return on Average Shareholders' Equity	% (4.65)	% 2.87	% 1.34	% 2.50	% 4.41

(1) The 1985 and prior fiscal years have been restated to present the investment in Woodward Realty Limited on the equity rather than the consolidated basis.

The share of earnings of Woodward Realty Limited is reported as earnings from discontinued operations.

(2) The per share figures for 1986 and prior fiscal years have been restated to reflect stock dividends paid during the 1987 fiscal year.

(3) Fifty-three week period.

CORPORATE INFORMATION

DIRECTORS

Charles Namby Wynn Woodward†‡
 Rose Bancroft
 Joseph Lorne Braithwaite
 William George Brown
 Charles Reginald Clarridge**
 Marco Gandossi, C.A.†
 William Douglas Haig Gardiner†‡
 James Norman Hyland*‡
 Philip Charles McComb
 Frances Ruth Olson
 Frank Allan Robertson†
 Margaret Elizabeth Southern
 John Martin Tennant†*
 Robert Arthur White†*
 William John Douglas Woodward†

†Member of Executive Committee

*Member of Audit Committee

**Alternate Member of Audit Committee

‡Member of Compensation Committee

OFFICERS AND EXECUTIVE MANAGEMENT

Charles Namby Wynn Woodward
Chairman of the Board and Chief Executive Officer

Frank Allan Robertson
President and Chief Operating Officer

William John Douglas Woodward
Executive Vice President

Marco Gandossi, C.A.
Executive Vice President, Finance and Secretary

William George Brown
Senior Vice President, Distribution

Philip Charles McComb
Senior Vice President, Alberta Operations

*Christopher Charles Woodward
Senior Vice President, Merchandising

George Richard Bailey
Vice President, Marketing

George James Clark
Vice President, Food Operations

Patricia Ann Fisher
Vice President, Information Services

*Richard Michael Freeman
Vice President, Stores

*James Duncan Gilbert
Vice President, Fashions

John Alvin Hopkins
Vice President, Planning and Buildings

James Robert Jones
Vice President, Real Estate and Development

Thomas Nicholas Sebal
Vice President, Human Resources

*Denis Luciano Zuccato
Vice President, Home Fashions and Hardgoods

Larry William Seniowski, C.A.
Controller

Gregory John Duncan McKinstry
Treasurer and Assistant Secretary

*Effective February 1, 1987

REGISTRAR

Woodward's Limited, Vancouver,
 British Columbia.

HEAD OFFICE

101 West Hastings Street, Vancouver,
 British Columbia.

TRANSFER AGENTS

Woodward's Limited, Vancouver,
 British Columbia.
 Montreal Trust Company,
 Toronto, Ontario; Montreal, Quebec;
 Edmonton, Alberta.

AUDITORS

Deloitte Haskins & Sells, Chartered
 Accountants, Vancouver, British
 Columbia.

ANNUAL GENERAL MEETING

11:00 a.m. Tuesday, June 2, 1987,
 Oakridge Auditorium, Oakridge Centre,
 41st & Cambie,
 Vancouver, British Columbia.

WOODWARD STORES IN BRITISH COLUMBIA AND ALBERTA

1892
 Downtown Store,
 Vancouver, B.C.
 1948
 Port Alberni Store,
 Port Alberni, B.C.
 1950
 Park Royal Centre,
 West Vancouver, B.C.
 1954
 New Westminster Store,
 New Westminster, B.C.
 1955
 Westmount Centre,
 Edmonton, Alberta
 1959
 Oakridge Centre,
 Vancouver, B.C.
 1960
 Chinook Centre,
 Calgary, Alberta
 1963
 Mayfair Centre,
 Victoria, B.C.

1965

Northwood Mall,
 Edmonton, Alberta

1966

Guildford Centre,
 Surrey, B.C.

1966

Parkwood Centre,
 Prince George, B.C.

1970

Southgate Centre,
 Edmonton, Alberta

1971

Market Mall Centre,
 Calgary, Alberta

1974

Edmonton Centre,
 Edmonton, Alberta

1974

Arbutus Village,
 Vancouver, B.C.

1975

Lethbridge Centre,
 Lethbridge, Alberta

1975

Sevenoaks Centre,
 Clearbrook, B.C.

1975

Cherry Lane Centre,
 Penticton, B.C.

1977

Lansdowne Park,
 Richmond, B.C.

1979

Coquitlam Centre,
 Coquitlam, B.C.

1981

Bower Place,
 Red Deer, Alberta

1981

Aberdeen Mall,
 Kamloops, B.C.

1981

Sunridge Mall,
 Calgary, Alberta

1981

Woodgrove Mall,
 Nanaimo, B.C.

1985

West Edmonton Mall,
 Edmonton, Alberta

1986

Metrotown Centre,
 Burnaby, B.C.

WOODWARD'S LIMITED

101 West Hastings Street

Vancouver, British Columbia